

Message Text

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ACTION XMB-07

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CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01

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TO SECSTATE WASHDC 1636

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E.O. 11652: NA

TAGS: ENRG ETRD JA UR

SUBJ: SOUTH YAKUTSK COAL DEVELOPMENT AGREEMENT

REF: A. TOKYO 5374 B. TOKYO 5296

SUMMARY: PRIVATE LEVEL OFFICIALS OF JAPAN AND USSR SIGNED
PROTOCOL APR 30 PROVIDING FOR EXPORT OF OVER 100
MILLION TONS OF COAL TO JAPAN BETWEEN 1978-1998.
DEVELOPMENT OF COAL RESOURCES IN SOUTH YAKUTSK AREA OF
SIBERIA WILL BE FINANCED BY \$450 MILLION CREDIT PREVIOUSLY
PLEDGED BY JAPAN EXIMBANK. AGREEMENT REPRESENTS LARGEST
PROJECT THUS FAR CONCLUDED BETWEEN JAPAN AND USSR FOR
DEVELOPMENT OF SIBERIAN RESOURCES. END SUMMARY.

1. ON APR 30, B.Z. NIKOLAYENKO, PRESIDENT OF THE SOVIET
MINING AND INDUSTRIAL GOODS EXPORT CORP., AND HISAO
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MAKITA, CHAIRMAN OF COAL SUBCOMMITTEE OF THE JAPAN-SOVIET

ECONOMIC COOPERATION COMMITTEE, SIGNED A PROTOCOL OUTLINING TERMS AND CONDITIONS FOR JAPANESE COOPERATION IN DEVELOPMENT OF COAL RESOURCES IN SOUTH YAKUTSK AREA OF USSR AND THE EXPORT OF THIS COAL TO JAPAN. DISCUSSIONS ON THIS PROJECT WERE FIRST BEGUN IN 1967 AND HAVE BEEN PURSUED INTENSIVELY OVER LAST YEAR. AGREEMENT IS THE FIRST IN THE CURRENT SERIES OF FIVE MAJOR SIBERIAN DEVELOPMENT PROJECTS WHICH HAVE BEEN UNDER DISCUSSION FOR SOME TIME BETWEEN JAPAN AND USSR.

2. S. DOSAKO, GENERAL MANAGER OF FUELS AND FERROUS MATERIALS DEPARTMENT OF NIPPON STEEL CORP., WHO PARTICIPATED ACTIVELY IN NEGOTIATIONS, PROVIDED EMBASSY WITH BRIEFING ON MAJOR POINTS OF PROTOCOL. THESE ARE AS FOLLOWS:

A. JAPAN WILL PROVIDE SOVIETS WITH \$450 MILLION WORTH OF COAL MINING AND RAILWAY EQUIPMENT BETWEEN 1975 AND 1981. LATTER WILL BE USED FOR CONSTRUCTION OF 400 KM RAILWAY LINKING NERYUNGRA WITH BAM ON TRANS-SIBERIAN RAILWAY. (SEE REF B RE EXTENSION OF JAPAN EXIMBANK CREDITS FOR THIS PROJECT.)

B. EXPORT OF SOUTH YAKUTSK (NERYUNGRA) COAL WILL BEGIN IN 1983 (AT LEVEL OF 3.2 MILLION TONS). FULL EXPORT PRODUCTION WILL BE REACHED IN 1985. DURING 1985-1998 PERIOD 5.5 TONS OF NERYUNGRA COAL WILL BE EXPORTED EACH YEAR TO JAPAN.

C. USSR WILL EXPORT TO JAPAN ADDITIONAL ONE MILLION TONS PER YEAR OF KUZNETZ COAL (ABOVE PRESENT ANNUAL LEVEL OF THREE MILLION TONS) IN 1979-1998 PERIOD. THIS EXPORT IS DESIGNED TO ACCELERATE REPAYMENT OF CREDITS.

D. PRICE OF COAL WILL BE AGREED ON AT LATER DATE AND WILL BE SET IN ACCORDANCE WITH PREVAILING INTERNATIONAL MARKET PRICES FOR COAL OF SIMILAR QUALITY.

E. ONLY SUB-SURFACE HARD COAL WILL BE INCLUDED IN TERMS OF PROJECT.

3. IN EXPLAINING ABOVE, DOSAKO NOTED THAT SOVIETS LIMITED OFFICIAL USE

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HAD LAST YEAR ASKED FOR CREDITS OF \$585 MILLION FOR COAL PROJECT, BUT THAT IT HAD BEEN DECIDED IN CURRENT NEGOTIATIONS TO LIMIT PROJECT TO DEVELOPMENT OF NERYUNGRA COAL FIELDS ONLY, EXCLUDING DEVELOPMENT OF CHUL'MAN COAL FIELDS TO THE NORTH. THIS MEANT THAT NEW RAILWAY WOULD BE 30 KM SHORTER AND THAT LESS MINING EQUIPMENT WOULD BE REQUIRED HENCE ONLY \$450 MILLION CREDIT REQUIRED. DOSAKO ADDED THAT DEVELOPMENT OF CHUL'MAN

COAL MIGHT BE CONSIDERED AS SEPARATE PROJECT AT LATER DATE. PURCHASE OF SOFT SURFACE COAL IN NERYUNGRA WILL ALSO BE CONSIDERED BY JAPAN ON SEPARATE BASIS.

4. DOSAKO NOTED THAT PRICE HAD BEEN MOST CONTENTIOUS ISSUE IN RECENT NEGOTIATIONS SINCE SOVIETS HAD INSISTED ON SETTING C.I.F. PRICE WHICH THEY SAID SHOULD BE COMPARABLE TO C.I.F.-JAPAN PRICE OF U.S. AND AUSTRALIAN COAL. IN LENGTHLY DISCUSSIONS JAPANESE HAD CONSISTENTLY REJECTED THIS FORMULA. DOSAKO ADDED THAT SOVIETS HAD EVENTUALLY CONCEDED ON THIS POINT AND BASIC UNDERSTANDING HAD BEEN REACHED THAT COAL WOULD BE PRICED ON F.O.B. BASIS.

5. DOSAKO NOTED THAT SIGNATURE OF PROTOCOL REPRESENTED COMPLETE SUBSTANTIVE AGREEMENT ON TERMS OF DEVELOPMENT PROJECT. EFFORTS HAD BEEN MADE TO SIGN ACTUAL CONTRACT BETWEEN USSR AND SOUTH YAKUTSK COAL DEVELOPMENT COOPERATION CO. (SPECIALLY ORGANIZED JAPANESE FIRM) CONCURRENTLY WITH PROTOCOL; HOWEVER, FIRM COULD NOT BE INCORPORATED IN TIME SO FORMAL CONTRACT SIGNING POSTPONED FOR MONTH OR SO. SHOESMITH

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